Bank of China (Malaysia) Berhad

Risk Weighted Capital Adequacy Framework (Basel II) –
Disclosure Requirements (Pillar 3)
30 June 2018

CONTENTS

1. Introduction

Pursuant to Bank Negara Malaysia's ("BNM") Risk-Weighted Capital Adequacy Framework ("RWCAF"), banking institutions are to make available Pillar 3 disclosure for financial reporting beginning 1 January 2010.

RWCAF is based around three Pillars:

- Pillar 1 requires banking institutions to define rules for the computation of minimum capital requirement for credit risk, market risk and operational risk.
- Pillar 2 requires banking institutions to implement an Internal Capital Adequacy Assessment Process ("ICAAP") for other risks not covered by Pillar 1.
- Pillar 3 requires expanded disclosures to allow market participants to understand the risk profiles of the bank.

The Bank adopts The Standardised Approach ("SA") in computing the capital requirements for credit risk and market risk and adopts The Basic Indicator Approach ("BIA") for operational risk of the Pillar 1 under BNM's RWCAF.

Under SA, standard risk weights are used to assess the capital requirements for exposures in credit risk and market risk. The capital requirement for operational risk under BIA is computed based on average of a fixed percentage of positive annual income over the previous 3 years (equivalent to 12 quarters).

The Pillar 3 disclosure will be published in the Bank's website, www.boc.cn/malaysia.

2. Scope of Application

Bank of China (Malaysia) Berhad ("Bank") is a limited liability company, incorporated and domiciled in Malaysia. The immediate holding company of the Bank is Bank of China (Hong Kong) Limited, which was incorporated in Hong Kong whereas the penultimate holding company is Bank of China Limited and the ultimate holding company is Central Huijin Investment Ltd, both were incorporated in China. The principal activities of the Bank are commercial banking and related financial services.

The Bank has a wholly owned subsidiary company which engaged in non-financial activities and the investment in subsidiary has been deducted from regulatory capital. As the subsidiary company's assets size is not significant in relation to the Bank's assets, there is no separate group consolidation for capital adequacy for regulatory capital reporting. For the purposes of this report, the disclosures presented within will be representative of the Bank entity disclosures only.

The disclosures have been reviewed by internal auditors and certified by Bank of China (Malaysia) Berhad's Chief Executive Officer.

3 Capital

3.1 Capital Management

The Bank's capital management is guided by the Bank's Capital Management Policy which sets out the minimum policies and procedures that the Bank needs to put in place and apply within its capital management programme, and the minimum criteria it should use to ensure that the Bank has adequate capital and effective plans to prudently manage the Bank's capital requirement to support the development of business, to meet regulatory capital requirements at all times and to maintain good risk rating. Capital Contingency Plan has been put in place where actions to be taken have been specified to address the capital adequacy issue in case the capital ratio falls below warning trigger ratio and Internal Capital Target ratio.

The objective of the Bank's capital management is to ensure that the Bank maintains sufficient capital at an appropriate level, meeting the requirement of all applicable regulatory standards and guidelines, risk compensation in line within the Bank's risk appetite, business development and return on capital is sufficient to satisfy the expectations of shareholders. In addition, through effective allocation of capital, and capital investment instruments, the Bank strives to continuously enhance its financial effectives, improve capital value, and ultimately maximize shareholders' value while controlling risk.

The Board of Director (BOD) shall assume the primary responsibility in ensuring capital is adequate to cover material risks inherent in the Bank by meeting all relevant regulatory standards and guidelines. Internal capital trigger point and minimum capital level is set for Total Capital ratio.

The Bank's capital management framework mainly focuses on capital planning, capital contingent plan and capital funding management. Annual business targets, Risk Appetite Statement and three-year projected business plans with financial projections and capital requirements are approved by the BOD yearly.

Capital adequacy and regulatory capital are closely monitored by Management, employing techniques based on the guidelines of Basel II for supervisory purposes. The information is reported to Management on a monthly basis and to the Board via the interim financial statement on a quarterly basis.

3.2 Capital Adequacy Ratio

The total capital and capital adequacy ratios of the Bank is computed in accordance with Bank Negara Malaysia's revised Capital Adequacy Framework (Capital Components) Policy dated 2 February 2018. The Bank has adopted the Standardised Approach for Credit Risk and Market Risk, and Basic Indicator Approach for Operational Risk.

Pursuant to Bank Negara Malaysia's revised Capital Adequacy Framework (Capital Components), the Bank is required to hold and maintain the minimum capital adequacy ratios and capital buffers above the minimum Common Equity Tier 1 (CET1) Capital, Tier 1 Capital and Total Capital Ratio.

The capital buffers shall comprises sum of the following:

a) Capital Conservation Buffer (CCB) of 2.5% phased-in from 2016 to 2019 [2016: +0.625%, 2017: +1.25%; 2018: +1.875%; 2019: +2.5%]
b) Countercyclical Capital Buffer (CCyB), determined as the weighted average of the prevailing CCyB rates applied in the jurisdictions in which the bank has credit exposures. (intended to protect the banking sector as a whole from the build-up of systemic risk during an economic upswing when aggregate credit growth tends to be excessive.) (Maximum is 2.50%)

The minimum capital adequacy requirement for year 2018:

CET 1 Ratio (including CCB and CCyB)	6.375% (5.75% in year 2017)
Tier 1 Capital Ratio (including CCB and CCyB)	7.875% (7.25% in year 2017)
Total Capital Ratio (including CCB and CCyB)	9.875% (9.25% in year 2017)

Total CET 1 and Total capital ratio are as follows:

	Jun 2018 RM'000	Dec 2017 RM'000
Before/After deducting proposed dividends		
CET 1 capital ratio	17.298%	17.016%
Tier 1 capital ratio	17.298%	17.016%
Total capital ratio	34.042%	33.561%

The breakdown of risk-weighted assets ("RWA") by exposures in each major risk category are as follow:

30 Jun 2018	Gross exposure RM'000	Net exposure RM'000	Risk-Weighted assets RM'000	Capital requirements RM'000
Exposure class				
(i) Credit Risk				
On-balance sheet exposure:				
Sovereigns & central banks	3,469,118	3,469,118	-	-
Banks, development financial institutions & MDBs*	2,992,991	2,992,991	613,951	49,116
Corporate	6,168,943	5,764,408	5,351,390	428,111
Regulatory Retail	204,746	203,264	177,188	14,175
Residential mortgages	201,148	200,475	70,710	5,657
Other assets	86,013	86,013	66,736	5,339
Total on-balance sheet exposure	13,122,959	12,716,269	6,279,975	502,398
Off-balance sheet exposures:				
Credit-related off-balance sheet exposure	1,904,598	1,843,775	1,236,563	98,925
Total credit risk	15,027,557	14,560,044	7,516,538	601,323
Net long position				
(ii) Market Risk				
Foreign currency risk	25,017		25,017	2,001
(iii) Operational Risk			493,108	39,449
Total risk weighted assets and capital requirement			8,034,663	642,773

* Multilateral Development Banks ("MDBs")

31 Dec 2017	Gross exposure RM'000	Net exposure RM'000	Risk-Weighted assets RM'000	Capital requirements RM'000
Exposure class				
(i) Credit Risk				
On-balance sheet exposure:				
Sovereigns & central banks	3,442,935	3,442,935	-	-
Banks, development financial institutions & MDBs*	3,273,160	3,273,160	992,129	79,370
Corporate	5,371,761	4,816,234	4,768,753	381,501
Regulatory Retail	106,735	105,385	81,188	6,495
Residential mortgages	315,029	313,958	115,517	9,241
Other assets	86,875	86,875	68,094	5,448
Total on-balance sheet exposure	12,596,495	12,038,547	6,025,681	482,055
Off-balance sheet exposures:				
Credit-related off-balance sheet exposure	1,766,902	1,708,338	1,515,277	121,222
Total credit risk	14,363,397	13,746,885	7,540,958	603,277
Net long position				
(ii) Market Risk				
Foreign currency risk	9,033		9,033	723
(iii) Operational Risk			456,835	36,547
Total risk weighted assets and capital requirement			8,006,826	640,547

* Multilateral Development Banks ("MDBs")

3.3 Capital Structure

The Bank's regulatory capital is divided into CET 1 and Tier 2 capital.

CET 1 capital consists of share capital, capital reserves, reserves created by appropriations of retained earnings and retained earnings. Tier 2 capital consists of loan loss provisions, revaluation reserves and others. Goodwill, investment in subsidiaries, investments in entities engaged in banking and financial services which are not consolidated in the financial statement, investment properties and investments in commercial corporations are deducted from core and Tier 2 capital to arrive at the regulatory capital.

	Jun 2018 RM'000	Dec 2017 RM'000
CET 1 capital		
Paid-up ordinary share capital	760,518	760,518
Retained profits	647,202	607,180
Regulatory reserves	30,067	30,067
Fair value through other comprehensive reserve	376	-
Revaluation Reserves	-	1,163
	1,438,163	1,398,928
Regulatory adjustments applied in the calculation of CET 1 capital		
-Deferred tax assets	(18,081)	(5,807)
-55% of cumulative unrealised gains of FVOCI financial instrument	(207)	-
-55% of cumulative gains of AFS	-	(641)
-Regulatory reserve attributable to loans and advances	(30,067)	(30,067)
Total CET 1 capital/ Total Tier 1 capital	1,389,808	1,362,413
Tier-2 capital		
General Provision*	93,957	71,047
Subordinated loan	1,252,400	1,254,725
Less: Investment in subsidiary	(1,000)	(1,000)
Total tier-2 capital	1,345,357	1,324,772
Total capital base	2,735,165	2,687,185
Capital ratios		
CET 1 capital ratio	17.298%	17.016%
Tier 1 capital ratio	17.298%	17.016%
Total capital ratio	34.042%	33.561%

* General provision is subject to a maximum of 1.25% of total credit risk-weighted assets determined under the Standardised Approach for credit risk.

4. Risk Management

4.1 Risk Management Framework

Risk Governance

The risk governance of the Group and the Bank are as follows:

Establish and Approve Risk Appetite, Risk Tolerance and Policy, Framework & Governance	Board of Directors ("BOD")
	Board Risk Management Committee ("BRMC")
Implementation of Risk Policy, Oversee the effective management of Regulations and Anti-Money Laundering / Counter Financing of Terrorism (AML/CFT) compliance risk, monitoring of risk tolerance	Risk Management and Internal Control Committee ("RMICC")
	Compliance Risk Management Committee ("CRMC")
	Senior Management
	Risk Management Department ("RMD")
	Internal Audit Department
Implement and Comply with Risk Policy, assessing and ensuring risk data is correctly retrieved, kept current and aligned with the data definitions, monitoring of Risk Tolerance	All the Departments and Branches

The BOD is ultimately responsible for the oversight and management of risks of the Group and the Bank.

RMICC assists the BRMC and BOD in risk management oversight, responsible for the development and reviewing of risk policies, portfolio exposure monitoring, aligning risk management with business strategies and planning, ensuring that infrastructure, resources and systems are put in place for effective risk management activities.

Compliance Risk Management Committee (CRMC) is a sub-committee of RMICC with the objective to oversee the effective management and implementation of relevant requirements of the Regulators, Board of Directors and the Management on Regulatory and Anti-Money Laundering / Counter Financing of (AML/CFT) compliance risk. The committee also responsible in strengthening the regulatory and AML/CFT compliance risk management and ensuring Bank's business operations conforming to all relevant laws and regulations and to create a sound compliance culture for the Bank.

The Internal Audit Department is responsible in providing an independent review on Risk Management Framework and to assess the soundness and adequacy of internal controls includes structure, process and policies of the Bank.

The independent Risk Management Department provides crucial support to the RMICC, CRMC and BRMC for implementing the risk policies and overseeing the compliance risk. They are also responsible for monitoring and reporting of risk.

The Business Units are the first line of defense against risk that responsible for identifying, mitigating and managing risk within their line of business to ensure the day-to-day business activities are carried out within the established risk appetite, policies, tolerance, guidelines and procedures.

Risk Management Approach

Pillar 2 requires the banking institutions to assess their internal capital requirements in relation to their risk profile of their business through the Internal Capital Adequacy Assessment Process ("ICAAP") beyond the capital requirements for credit, operational and market risks under Pillar 1 in a more forward-looking approach.

The Bank's ICAAP is guided by the ICAAP Policy detailing the responsibilities, approaches and methodologies for identifying and measuring risks, stress testing, reporting and review process, capital planning for a 3 year-plans, independent review, and etc. The Bank has undertaken a self-assessment to evaluate the existing capital and risk management practices against the expectations set forth by BNM, as well as actions to close the gaps.

The internal capital adequacy assessment is stress-tested based on specific stress scenarios, mainly using quantitative analysis, covering main risks across the business lines and taking full consideration of the impact of macroeconomics changes to assess the impact on Bank's capital adequacy.

The Bank has identified the key risks and put in place measurements and control to mitigate those risks; and throughout the Bank's risk assessment process, stress testing and scenario testing are employed to ensure that the capital is adequate to cover the risk which are not fully captured under Pillar 1, such as liquidity risk, interest rate risk in banking book and concentration risks. Such information allows senior management to identify adverse trend, take preventive and corrective measures and formulate business strategies.

5 Credit Risk

Credit risk is the risk of financial loss that results from borrower or counterparty failing to perform its contractual obligations. Credit risk arises primarily from lending activities and represents the major risk of the Bank.

The Bank structures the levels of credit risk it undertakes by placing threshold limits on the amount of risk acceptable in relation to single borrower, group of borrowers, industry segments, country, product in addition to limits set for regulatory compliance purpose. Such risks and compliance are monitored on a regular basis and are subject to annual or more frequent review. Limits set by regulator and Parent Bank are adopted by the Bank for managing credit risks.

Monitor and Mitigation of Material Risks

- Prudent customer selection is conducted by business unit who stand as the first line of defense. The Bank has adequate management of credit risk with refining risk appetite, monitoring of key risk threshold limit, enhancing/developing/tighten underwriting standards for various type of lending, strengthening loan monitoring and increase loan portfolio of better risk rating category of "BBB and above". Weaker rating (below BBB) are adequately mitigated with credit risk mitigants, such as tangible collaterals and guarantees;

- For both Corporate and Retail loan, the Bank applies the 3-in-1 concept of approval process where credit applications are independently assessed by Credit Approval Department and deliberated by the Credit Evaluation Panel ("CEP"), and subsequently submit to CEO for final decision for larger facility limit. For smaller facility limit, credit will be approved by delegated approving authority in credit approval department. Experienced and competent key personnel are appointed to the CEP to assist the CEO in assessing the credit application and major credit decisions, to provide recommendation to CEO for final decision. CEO has the discretion to reject or modify terms and conditions of the loans passed by CEP. For cases which needs Bank of China (Hong Kong) Limited's (incorporated in Hong Kong) consultation, the Board Risk Management Committee has the veto power to reject credit or modify the terms and conditions which have been approved by the delegated approving authorities.

- The Bank continued to analyze and monitor its credit exposure portfolio and report to Management on a monthly basis through RMICC and to the Board Risk Management Committee and Board of Directors on a quarterly basis.

5.1 Past Due and Impaired Loan

The loans/financing of the Bank is considered past due when the repayment amount due and unsettled on the due date. A loan is considered to be past due when the counterparty has failed to make principal or interest repayment when contractually due. Loan with more than 90 days past due or any other events occurred is to be classified as impaired as per the Bank policies.
The classification of impaired loans/financing and provision of the Bank for loans/financing impairment is consistent with the standard under Malaysian Financial Reporting Standards 9 ("MFRS9") and BNM Guidelines on Financial Reporting.

The loans/financing ("loan(s)") of the Bank are classified as impaired when they meet the following criteria:

i. where the principal or interest or both of the loan is past due for more than 90 days or 3 months. In the case of revolving facilities, (e.g. overdraft facilities), the facility shall be classified as impaired where the outstanding amount has remained in excess of the approved limit for a period of more than 90 days or 3 months; or

ii. where the amount is past due or the outstanding amount has been in excess of the approved limit for 90 days or 3 months or less and the loan exhibits weaknesses in accordance with Bank of China (Malaysia) Credit Risk Measurement Framework that would render the account as impaired; or

iii. Where repayments are scheduled on intervals of 3 months or longer, the loan/financing is classified as impaired as soon as a default occurs.

iv. when the loan is classified as rescheduled and restructured in CCRIS in accordance with regulatory requirements.

With effect from 1 January 2018, the Bank has adopted MFRS9 which introduces a forward-looking expected credit loss (ECL) model on impairment. The Bank applies a 3 stages approach to measuring ECL as follows:

Stage 1 - 12 months ECL

- For credit exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the ECL associated with the probability of default events occurring within the next 12 months will be recognised.

Stage 2 – Lifetime ECL

- For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, the ECL associated with the probability of default events occurring within the lifetime ECL will be recognised.

Stage 3 – Lifetime ECL

- Financial assets are assessed as credit impaired when one or more objective evidence of defaults that have a detrimental impact on the estimated future cashflows of that asset have occurred.

The MFRS9 ECL Methodology for Stage 1, 2 & 3 Financial Assets has independently validated by external auditor.

5.2 Geographical Analysis

Geographic distribution of credit exposures, broken down in geographical location where the credit risk resides by major types of gross credit exposures

30 June 2018

Credit exposure	Geography				
Asset Class	**Malaysia**	**China**	**Hong Kong**	**Other**	**Total**
	RM'000	RM'000	RM'000	RM'000	RM'000
Sovereigns & central banks	3,469,118	-	-	-	3,469,118
Banks, development financial institutions & MDBs	2,254,080	289,842	153,959	608,653	3,306,534
Corporates	5,133,761	807,941	548,390	1,262,309	7,752,401
Regulatory retails	117,386	84,350	3,212	6,520	211,468
Residential mortgages	47,200	116,951	5,270	32,602	202,023
Other assets	86,013	-	-	-	86,013
Total	11,107,558	1,299,084	710,831	1,910,084	15,027,557

31 December 2017

Credit exposure	Geography				
Asset Class	**Malaysia**	**China**	**Hong Kong**	**Other**	**Total**
	RM'000	RM'000	RM'000	RM'000	RM'000
Sovereigns & central banks	3,442,935	-	-	-	3,442,935
Banks, development financial institutions & MDBs	1,639,306	831,593	356,217	732,906	3,560,022
Corporates	4,772,895	705,558	431,259	921,744	6,831,456
Regulatory retails	98,779	6,739	1,188	3,599	110,305
Residential mortgages	67,876	213,679	6,736	43,513	331,804
Other assets	86,875	-	-	-	86,875
Total	10,108,666	1,757,569	795,400	1,701,762	14,363,397

5.3 Industry Analysis

Distribution of exposures by sector, broken down by major types of gross credit exposures

30 June 2018

Credit exposure	Category						
Sector	**Sovereigns & central banks**	**Banks, development financial institutions & MDBs**	**Corporates**	**Regulatory Retails**	**Residential mortgages**	**Other assets**	**Total**
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Primary agriculture	-	-	628,715	1,857	-	-	630,572
Mining & Quarrying	-	-	461,428	-	-	-	461,428
Manufacturing	-	-	1,718,919	3,216	-	-	1,722,135
Electricity, gas & water supply	-	-	245,481	-	-	-	245,481
Construction	-	-	877,071	940	-	-	878,011
Real Estate	-	-	1,655,529	6,464	-	-	1,661,993
Wholesale & retail trade & restaurant & hotels	-	-	322,543	2,357	-	-	324,898
Transport, storage & communication	-	-	289,464	-	-	-	289,464
Finance, insurance & business services	-	3,306,534	850,459	-	-	86,013	4,243,006
Household	-	-	430,990	196,634	202,023	-	829,647
Government & government agencies	3,469,118	-	-	-	-	-	3,469,118
Education, health & others	-	-	271,802	-	-	-	271,802
Others	-	-	-	-	-	-	-
Total	3,469,118	3,306,534	7,752,401	211,468	202,023	86,013	15,027,557

Distribution of exposures by sector, broken down by major types of gross credit exposures (continued)

31 December 2017

Credit exposure	**Category**						**Total**
Sector	**Sovereigns & central banks**	**Banks, development financial institutions & MDBs**	**Corporates**	**Regulatory Retails**	**Residential mortgages**	**Other assets**	
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Primary agriculture	-	-	535,971	3,644	-	-	539,615
Mining & Quarrying	-	-	59,083	-	-	-	59,083
Manufacturing	-	-	1,676,775	300	-	-	1,677,075
Electricity, gas & water supply	-	-	352,486	-	-	-	352,486
Construction	-	-	916,811	344	-	-	917,155
Real Estate	-	-	1,323,899	7,000	-	-	1,330,899
Wholesale & retail trade & restaurant & hotels	-	-	371,696	1,501	-	-	373,197
Transport, storage & communication	-	-	320,622	65	-	-	320,687
Finance, insurance & business services	-	3,560,022	701,725	169	-	86,875	4,348,791
Household	-	-	485,537	97,282	331,804	-	914,623
Government & government agencies	3,442,935	-	-	-	-	-	3,442,935
Education, health & others	-	-	86,851	-	-	-	86,851
Others	-	-	-	-	-	-	-
Total	3,442,935	3,560,022	6,831,456	110,305	331,804	86,875	14,363,397

5.4 Maturity Analysis

Original contractual maturity breakdown by major types of gross credit exposures

30 June 2018

Credit exposure	Maturity			Total
Category	Up to one year	1-5 year	>5years	
	RM'000	RM'000	RM'000	RM'000
Sovereigns & central banks	3,064,620	71,004	333,494	3,469,118
Banks, development financial institutions & MDBs	3,012,035	217,151	77,348	3,306,534
Corporates	3,259,525	1,545,923	2,946,953	7,752,401
Regulatory retails	14,877	63	196,528	211,468
Residential mortgages	20	-	202,003	202,023
Other assets	445	-	85,568	86,013
Total	9,351,522	1,834,141	3,841,894	15,027,557

31 December 2017

Credit exposure	Maturity			Total
Category	Up to one year	1-5 year	>5years	
	RM'000	RM'000	RM'000	RM'000
Sovereigns & central banks	3,442,935	-	-	3,442,935
Banks, development financial institutions & MDBs	3,337,307	185,487	37,228	3,560,022
Corporates	2,851,231	2,026,511	1,953,714	6,831,456
Regulatory retails	15,891	82	94,332	110,305
Residential mortgages	-	-	331,804	331,804
Other assets	39,195	47,680	-	86,875
Total	9,686,559	2,259,760	2,417,078	14,363,397

5.5 Impaired Loans and Expected Credit Loss (ECL) by sector

(a) Impaired loans by sector:

	Jun 2018	Dec 2017
	RM'000	RM'000
Household	11,548	7,649
Manufacturing	65,580	63,554
Real Estate	4,296	4,261
Transport, Storage & Communication	-	312
Finance, Insurance & Business Services	-	305
Wholesale, Retail Trade, Restaurant & Hotel	22,211	21,684
Construction	3,341	-
	106,976	97,765

(b) Past due loans by sector:

	Jun 2018	Dec 2017
	RM'000	RM'000
Primary agriculture	57,377	32,606
Manufacturing	1,768	30,646
Construction	1,275	12,843
Real estate	38,942	40,293
Wholesale, retail trade and restaurants and hotels	8,553	-
Transport, storage and communication	-	-
Finance, insurance and business services	-	-
Household	62,819	200,374
Electricity, Gas and Water Supply	33,021	-
Total	203,755	316,762

(c) Lifetime ECL (Credit Impaired) Stage 3/ Individual Impairment Provision by sector:

	Jun 2018	Dec 2017
	RM'000	RM'000
Household	3,005	1,853
Manufacturing	43,848	28,918
Real Estate	2,949	2,851
Finance, Insurance & Business Services	-	304
Wholesale, Retail Trade, Restaurant & Hotel	11,107	8,372
	60,909	42,298

(d) 12 month ECL (Stage 1) & Lifetime ECL (Non Credit Impaired) Stage 2/ Collective impairment provisions by sector:

	Jun 2018	Dec 2017
	RM'000	RM'000
Primary agriculture	3,777	4,349
Mining & Quarrying	2,414	227
Manufacturing	27,332	7,112
Electricity, Gas & Water Supply	1,925	2,205
Construction	3,662	2,997
Real estate	30,370	12,311
Wholesale and retail trade and restaurants and hotels	2,405	2,240
Transport, storage and communication	1,975	1,213
Finance, insurance and business services	2,786	3,167
Household	3,754	4,408
Education, health & others	1,600	773
	82,000	41,002

5.6 Impaired loans and lifetime ECL (credit impaired) Stage 3/individual provision by geographical area

All impaired loans and lifetime ECL (credit impaired) Stage 3/ individual provision were from customers residing in Malaysia.

5.7 Movement in impaired loans and advances

	Jun 2018 RM'000	Dec 2017 RM'000
Impaired loans and advances		
At beginning of the financial year	97,765	111,234
Classified as impaired during the year	10,243	62,247
Amount recovered	(722)	(3,429)
Amount written-off	(310)	-
Amount reclassified as Performing	-	(72,287)
At end of the financial year	106,976	97,765
ECL (credit impaired) Stage 3/ Individual impairment allowance	(60,909)	(42,298)
Net impaired loans and advances	46,067	55,467

5.8 Movement in loss allowance for ECL on loan and advances

	12 months ECL (Stage 1) RM'000	Lifetime ECL (not credit impaired) (Stage 2) RM'000	Lifetime ECL (credit impaired) (Stage 3) RM'000	Collective impairment allowance RM'000	Individual impairment allowance RM'000	Total RM'000
As at 31 December 2017	-	-	-	41,002	42,298	83,300
Effect of adopting MFRS 9 Financial Instruments	29,456	45,216	53,822	(41,002)	(42,298)	45,194
1 January 2018, as restated	**29,456**	**45,216**	**53,822**	**-**	**-**	**128,494**
Transfer to lifetime ECL not credit impaired	(3,543)	3,543	-	-	-	-
Transferred to 12 months ECL	1,790	(1,790)	-	-	-	-
Transferred to lifetime ECL credit impaired	(12)	(185)	197	-	-	-
Loans derecognised during the period (other than write-offs)	(2,220)	(1,828)	-	-	-	(4,048)
New loans ECL	6,257	1,788	-	-	-	8,045
Changes due to change in credit risk	(7,047)	2,168	7,200	-	-	2,321
Amounts written off	-	-	(310)	-	-	(310)
Gross carrying amount as at 30 June 2018	24,681	48,912	60,909	-	-	134,502

*The opening balance for the collective impairment allowance measured under MFRS 139 is now presented as 12-months and lifetime expected credit losses following the adoption of MFRS 9, with no restatement to prior period comparatives.

6. Credit Rating

Under the standardized comprehensive approach, the bank make use of credit rating assigned by External Credit Assessment Institutions (“ECAIs’) that are recognized by BNM in its calculation of credit risk weighted assets for capital adequacy purposes.

The following are the rating agencies or eligible External Credit Assessment Institutions (“ECAIs’) rating used by the bank:

a) Standard & Poor’s (“S&P”)
b) Moody’s Investor Service (Moody’s)
c) Fitch Rating (“Fitch”)
d) RAM Rating Services Berhad
e) Malaysian Rating Corporation Berhad (“MARC”)

Disclosures on Rated Exposures according to Ratings by ECAIs.

6.1 Disclosure on Credit Risk: Disclosure on Risk Weights under Standardised Approach

30 June 2018

Risk Weights	Exposures after Netting and Credit Risk Mitigation						Total exposures after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
	Sovereigns & Central Banks	Banks, MDBs and FDIs	Corporate	Regulatory Retails	Residential Mortgages	Other Assets		
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	3,469,118	-	-	-	-	19,277	3,488,395	-
20%	-	3,012,798	87,814	-	-	-	3,100,612	620,122
35%	-	-	-	-	197,888	-	197,888	69,261
50%	-	270,694	1,599,652	-	3,414	-	1,873,760	936,880
75%	-	-	-	125,222	-	-	125,222	93,917
100%	-	23,042	5,562,970	76,991	48	66,736	5,729,787	5,729,788
150%	-	-	36,753	7,627	-	-	44,380	66,570
Grand Total							14,560,044	7,516,538

31 December 2017

Risk Weights	Sovereigns & Central Banks	Banks, MDBs and FDIs	Corporate	Regulatory Retails	Residential Mortgages	Other Assets	Total exposures after Netting & Credit Risk Mitigation	Total Risk Weighted Assets
	Exposures after Netting and Credit Risk Mitigation							
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
0%	3,442,935	-	-	-	-	18,781	3,461,716	-
20%	-	2,867,207	80,124	-	-	-	2,947,331	589,466
35%	-	-	-	-	312,232	-	312,232	109,281
50%	-	279,924	114,372	-	13,054	-	407,350	203,675
75%	-	-	-	105,934	-	-	105,934	79,450
100%	-	412,890	5,932,632	-	5,180	68,094	6,418,796	6,418,796
150%	-	-	90,394	2,866	266	-	93,526	140,290
Grand Total							13,746,885	7,540,958

6.2 Rated Exposures according to Ratings by ECAIs

30 June 2018

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RM’000	RM’000	RM’000	RM’000	RM’000	RM’000	RM’000
On and Off Balance Sheet Exposures							
Sovereigns/Central Banks	-	-	3,469,118	-	-	-	-
Total	-	-	3,469,118	-	-	-	-

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB+ to BBB-	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	RM’000	RM’000	RM’000	RM’000	RM’000	RM’000	RM’000
On and Off Balance Sheet Exposures							
Banks, MDBs and FDIs	-	1,186,737	1,870,046	225,699	23,042	-	1,010
Total	-	1,186,737	1,870,046	225,699	23,042	-	1,010

Exposure Class	Ratings of Corporate by Approved ECAIs					
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RM’000	RM’000	RM’000	RM’000	RM’000	RM’000
<u>On and Off Balance Sheet Exposures</u>						
<u>Credit Exposure (using Corporate Risk Weights)</u>						
Corporate	-	72,972	393,082	144,206	-	7,142,139
Total	-	72,972	393,082	144,206	-	7,142,139

31 December 2017

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RM’000	RM’000	RM’000	RM’000	RM’000	RM’000	RM’000
<u>On and Off Balance Sheet Exposures</u>							
Sovereigns/Central Banks	-	-	3,442,935	-	-	-	-
Total	-	-	3,442,935	-	-	-	-

Exposure Class	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB+ to BBB-	BB1 to B3	C1 to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
	RM’000	RM’000	RM’000	RM’000	RM’000	RM’000	RM’000
On and Off Balance Sheet Exposures							
Banks, MDBs and FDIs	-	160,265	2,179,363	1,219,319	63	-	1,012
Total	-	160,265	2,179,363	1,219,319	63	-	1,012

Exposure Class	Ratings of Corporate by Approved ECAIs					
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BB3	B to D	Unrated
	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RM’000	RM’000	RM’000	RM’000	RM’000	RM’000
On and Off Balance Sheet Exposures						
Credit Exposure (using Corporate Risk Weights)						
Corporate	-	80,123	1,061,772	512,606	-	5,176,955
Total	-	80,123	1,061,772	512,606	-	5,176,955

7. Credit Risk Mitigation

The Bank is granting the credit facilities based on the credit standing of the customer, source of repayment, debt servicing ability and collateral(s)/ guarantees/ etc as the credit risk mitigant(s) (CRM). The credit facilities may be granted unsecured premised on the merit of the customer's credibility.

The main types of tangible collateral obtained by the Bank to mitigate credit risk are as follows:

No	Types of Collaterals
1	Fixed Deposits, Cash Margin
2	Residential Property
3	Non-Residential Property (e.g. shop, factory, warehouse, land and etc.)
4	Quoted Shares
5	Counter Guarantee by Financial Institution

The Bank also accepts guarantees from individuals, corporate and institutional customers to mitigate credit risk subject to internal guidelines on eligibility.

Valuation report of property by panel valuer is required by the Bank to ensure the value is fair unless is exempted by the Bank. Generally, the value of the property charged is updated during the periodic credit review to reflect the current market value.

For the computation of capital adequacy requirements for collateralized transactions, the Bank has since in August 2013 applied **comprehensive approach**, which allows greater offset of CRM against exposures, by effectively reducing the exposure amount by the value ascribed to the collateral. This is guided by the minimum conditions for the eligible collaterals set out in the "Risk-Weighted Capital Adequacy Framework (Basel II – Risk-Weighted Assets Computation) issued by BNM.

7.1 Disclosure on Credit Risk Mitigation

30 June 2018

Exposure Class	Exposures before CRM	Exposures Covered by Guarantees/ Credit Derivatives	Exposures Covered by Eligible Financial Collateral	Exposures Covered by Other Eligible Collateral
	RM'000	RM'000	RM'000	RM'000
Credit Risk				
On-Balance Sheet Exposure				
Sovereigns/Central Bank	3,469,118	-	-	-
Banks, Development Financial Institutions & MDBs	2,992,991	-	-	-
Corporates	6,130,601	1,325,037	465,210	-
Regulatory Retail	194,219	-	1,627	-
Residential Mortgages	197,686	-	674	-
Other Assets	86,013	-	-	-
Defaulted Exposures	52,331	-	-	-
Total for On-Balance Sheet exposures	13,122,959	1,325,037	467,511	-
Off-Balance sheet exposures				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	1,904,598	-	-	-
Total for Off-Balance sheet exposures	1,904,598	-	-	-
Total On and Off Balance sheet exposure	15,027,557	1,325,037	467,511	-

7.1 Disclosure on Credit Risk Mitigation (continued)

31 December 2017

Exposure Class	Exposures before CRM	Exposures Covered by Guarantees/ Credit Derivatives	Exposures Covered by Eligible Financial Collateral	Exposures Covered by Other Eligible Collateral
	RM'000	RM'000	RM'000	RM'000
Credit Risk				
On-Balance Sheet Exposure				
Sovereigns/Central Bank	3,442,935	-	-	-
Banks, Development Financial Institutions & MDBs	3,273,160	-	-	-
Corporates	5,281,367	194,284	613,936	-
Regulatory Retail	103,869	-	1,504	-
Residential Mortgages	310,246	-	1,071	-
Other Assets	86,875	-	-	-
Defaulted Exposures	98,043	-	-	-
Total for On-Balance Sheet exposures	12,596,495	194,284	616,511	-
Off-Balance sheet exposures				
Off-balance sheet exposures other than OTC derivatives or credit derivatives	1,766,902	-	-	-
Total for Off-Balance sheet exposures	1,766,902	-	-	-
Total On and Off Balance sheet exposure	14,363,397	194,284	616,511	-

8. Off-Balance Sheet Exposure

Off-Balance Sheet exposures of the Bank are mainly composed of the following:

- Bank Guarantee and Standby Letter of Credit, which represent undertakings that the Bank will make payment in the event that a customer cannot meet its obligations to third parties.
- Documentary Letter of Credit, which are undertaking that the Bank on behalf of the customer for payment of goods purchased.
- Commitments to extend credit including the unutilized or undrawn portion of credit facilities.

Off-Balance Sheet and Counterparty Credit Risk – 30 June 2018

Description	Principal Amount	Credit Equivalent Amount	Risk Weighted Assets
	RM'000	RM'000	RM'000
Direct Credit Substitutes	2,066	2,066	1,970
Transaction related contingent items	2,571,173	1,285,587	676,626
Short Term Self Liquidating trade related contingencies	112,164	22,433	21,963
Foreign exchange related contracts			
- One year or less	664,813	9,689	3,299
Other commitments , such as formal standby facilities and credit lines, with an original maturity of up to one year	1,541,523	308,305	285,895
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	553,027	276,514	246,807
Unutilised credit card lines	20	4	3
Total	5,444,786	1,904,598	1,236,563

Off-Balance Sheet and Counterparty Credit Risk – 31 December 2017

Description	Principal Amount	Credit Equivalent Amount	Risk Weighted Assets
	RM’000	RM’000	RM’000
Direct Credit Substitutes	47,144	47,144	47,144
Transaction related contingent items	2,420,967	1,210,484	1,029,664
Short Term Self Liquidating trade related contingencies	166,406	33,281	20,184
Foreign exchange related contracts - One year or less	89,664	532	170
Other commitments , such as formal standby facilities and credit lines, with an original maturity of up to one year	1,749,285	349,857	303,756
Other commitments, such as formal standby facilities and credit lines, with an original maturity of over one year	251,208	125,604	114,359
Total	4,724,674	1,766,902	1,515,277

9. Market Risk

Market risk is the risk of potential losses resulting from the changes in the value of assets and liabilities (including off-balance sheet assets and liabilities) due to fluctuations in the risk factors such as foreign exchange rates, interest rates, credit spreads, equity prices, commodities prices and their associated volatility.

At Management level, the Bank’s Risk Management and Internal Control Committee (RMICC) is responsible for the oversight of market risk management of the Bank and executing the Board Risk Management Committee (BRMC) and Board’s mandate on market risk management strategies, risk appetite and tolerance level. The Bank has established the Market Risk Management Policy to govern BOCM’s market risk governance structure, risk identification, measurement, monitoring and reporting processes. BOCM’s market risk is managed by the Risk Management Department (RMD).

RMD currently measures and monitors its FX Net Open Position (FX NOP), Value-at-Risk (VaR), Price Value of Basis Point (PVBP) and stop loss limits (Daily, Monthly and Yearly) on daily basis. RMD also reports to RMICC on monthly basis on BOCM's market risk exposures and its compliance to the limits approved for each market risk indicators.

For capital requirement, the Bank has adopted the Standardised Approach. The current market risk capital charge is from the Bank's exposures in the foreign exchange risk

Risk weighted assets and capital requirement for market risk

Capital Charge Requirement for :	30 Jun 2018	31 Dec 2017
	Standardised Approach	Standardised Approach
	RM'000	RM'000
Interest Rate risk	-	-
Equity Position Risk	-	-
Foreign Exchange Risk	2,001	723
Commodity Risk	-	-
Others	-	-
Total Risk Weighted Assets Equivalent for Market Risk	25,017	9,033

10. Operational Risk

Operational risk refers to the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risk is inherent in all activities, products and services of financial institutions and can transverse multiple activities and business lines within the bank. It includes a wide spectrum of heterogeneous risk such as fraud, physical damage, business disruption, transaction failures, legal and regulatory breaches as well as employee health and safety hazards. Operational risk may result in direct financial losses as well as indirect financial losses (e.g. loss of business and market share) due to reputational damage.

To manage operational risk, the bank has established "Three lines of defense" to manage operational risk events, where:-

1. First line of defense – Business and functional lines are primarily responsible in managing operational risk of their respective businesses and functions.
2. Second line of defense – perform reviewing and identification and management of major operational risk by business and functional lines as well as integrating operational risks at the enterprise level.
3. Third line of defense – provide regular reviews and assessments of the operational risk management framework, processes and systems.

Risk Management and Internal Control Committee ("RMICC") and Compliance Risk Management Committee ("CRMC") are the bank's risk governance committees accountable in overseeing the enterprise wide operational risk function. The committee is responsible to monitor and deliberate on operational risk issues specific to the business or functional lines, and promote risk ownership and management by the business and functional lines.

For capital requirement, the Bank has adopted the Basic Indicator Approach ("BIA"), the approach is in line with Bank Negara Malaysia Guidelines where the calculation is based on average of a fixed percentage of positive annual gross income over the previous three years.

Minimum Capital required for Operational Risk	30 June 2018 (RM'000)	31 December 2017 (RM'000)
Basic Indicator Approach	39,448	36,547
multiplier	12.5	12.5
Risk Weighted Asset	493,108	456,835

11. Interest Rate Risk in the Banking Book (IRRBB)

IRRBB is defined as the current and potential risk to the bank's earning and economic value arising from movement of interest rates.

The table below illustrates BOCM IRRBB under a 100 basis point parallel interest rate shock from earning and economic perspective.

As at 30 June 2018:

Currency	Earnings	Economic Value
	In Thousands	In Thousands
All Currencies (in MYR)	+/- 52,483	+/- 106,361
USD	+/- 10,520	+/- 85,299
CNY/CNH	+/- 883	+/- 609

As at 31 December 2017:

Currency	Earnings	Economic Value
	In Thousands	In Thousands
All Currencies (in MYR)	+/- 48,581	+/- 103,680
USD	+/- 13,257	+/- 88,526
CNY/CNH	+/- 682	+/- 512